GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:689
ANSWERED ON:05.12.2003
EXTERNAL COMMERCIAL BORROWINGS
AMBATI BRAHMANAIAH;M.H. AMBAREESH

Will the Minister of FINANCE be pleased to state:

(a) whether the Government have revised External Commercial Borrowings Policy;

(b) if so, the details thereof alongwith the reasons for changing the same;

(c) the manner in which the new policy is different from the earlier policy; and

(d) the impact of new ECB policy on the value of the Indian rupee?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI ANANDRAO V. ADSUL)

(a): Yes, Sir.

(b)&(c) : In the background of developments in recent months, it has become necessary to carry out the following revisions i n the existing ECB policy for a temporary period until further review:

(i) All ECBs shall be subject to the following revised maximum spreads over six months LIBOR, for the respective currency in which the loan is being raised or the applicable benchmark(s), as the case may be:

Type of Projects (all- in-cost)	Existing (all in-cost)	New
Normal Projects-	300	150
Infrastructure	400	250
Longterm-	450	300

(ii) ECBs for meeting rupee expenditure under automatic route tobe hedged unless there is a natural hedge in the form of uncovered foreign exchange receivables, which will be ensured by Authorised Dealers (ADs).Under the old ECB guidelines, there was no stipulation of compulsory hedging.

(iii) ECBsexceeding USD 50 million would be permittedfor the following end uses only (a) Financing import of equipment and (b) Foreign exchange needs of infrastructure projects. Under the old ECB guidelines there was no end use restriction for ECBs except investment in capital market.

(iv) No financial intermediary (viz. a bank, DFI, or NBFC) wilbe either allowed access to ECBs or to provide guarantees.However, this will not apply to Textile and Steel restructuring packages which have already been announced by the Government in consultation with RBI. Under the old ECB guidelines, there was no such restriction.

(v) ECBspending utilization would need to be parked overseas. Under the old ECB guidelines, ECB raised were required to be utilized/ brought into the country at the earliest.

(d) : The new ECB policy has not had any significant impact on the sentiment surrounding the Indian rupee.